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Mexico Remains an Important Market for U.S. Beef and Pork

Approved By:

Dan Berman

Prepared By:

Gabriel Hernandez and Adam Branson

Report Highlights:

Mexico's cattle inventories are falling as non-sensitive cattle are slaughtered or being exported due to long-term drought that is affecting the industry and driving up feed prices. The swine industry continues doing well; however, as the pig crop is greater than previously forecast. Imports of beef and pork meat are forecast to remain strong through 2012 as domestic production is not sufficient for demand and as imported product appeals to various segments of the population.

Executive Summary:**Disclaimer:**

Data included in this report is not official USDA data. Official USDA data is available at: <http://www.fas.usda.gov/psdonline>

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Production:

The Post 2012 Mexican beef production forecast is 1.83 million metric tons (MMT), carcass weight equivalent (CWE), slightly lower than the USDA forecast as cattle continue to be slaughtered at slightly lower weights than prior years. Since late 2011, northern Mexican cattle feeders have started slaughtering cattle, including feeder calves and dairy cattle as a measure to cope with an exceptional long-term [drought](#) affecting most of the country. The cattle industry has been struggling with strong international grain demand during the last half of 2011 which generated tighter feed supplies and higher production costs. Thus, to cope with the lack of forage cattle, feeders were compelled to partially liquidate herds during the last quarter of 2011. This was accomplished through the slaughtering of non-sensitive (not for breeding) cattle and the continued export of calves to the United States and more recently to Turkey.

The development of Turkey as a new market destination for Mexican live cattle has raised concerns by the cattle feeders and packers as it could have a negative effect on meat production. During 2011, the export of calves to the United States, Turkey, and other established markets, reached 1.435 million head, slightly lower than the USDA estimate. Without a sharp, rapid and significant improvement in breeding to improve the efficiency of the calf crop, the export of calves could cause future limited availability of steers for slaughtering intended to supply the domestic beef market.

Consumption:

The Post 2012 beef consumption forecast anticipates consumption figures will be slightly lower than the USDA forecast. Beef prices are expected to increase as a result of tighter supplies (i.e. increased Mexican beef exports and lower production volumes) and thus reduce domestic market demand in favor of other animal protein sources. Tighter supplies will affect lower-income households more than middle and upper income consumers (a smaller portion of the population) who will maintain or even be able to see a slight increase in their consumption levels. Middle and upper income consumers are reportedly increasing their purchases of imported beef as numerous news accounts have and government testing has found trace amounts of an unapproved compound in domestic product. As such, sources report they are altering consumption preferences and practices. The Post revised 2011 beef consumption estimate is

increased from the USDA estimate due to increased purchasing power among all income groups and lower than anticipated exports.

Traditionally, most low to medium income households consume beef cuts known as “*bistec*” (muscle thin beefsteak). Demand for finer cuts is limited to upper-income consumers, a smaller segment of the population, and, as such, finer cuts are often available for export markets.

Trade:

The Post 2012 revised beef import forecast is 300,000 MT (CWE), which is higher than the USDA forecast. As indicated earlier, drought and increased Mexican beef exports are preventing the meat sector from keeping up with demand increases from specific sectors of the population. Moreover concerns regarding food quality and food safety have led middle and upper income consumers to purchase higher volumes of imported beef.

During 2011, Mexican industry members made a concerted effort to diversify export market destinations. As such, industry sources report Mexico is exporting beef to a number of developing economies. Additionally, Mexico continued exporting beef products to Japan, the United States, Russia, and Korea. Mexico’s meat processors and traders expect that these markets will purchase greater volumes of Mexican beef during 2012. Specifically, there is strong industry belief that Mexico will be able to increase exports to Japan as negotiations for an expanded tariff-rate quota and a lower duty volume on its beef exports were concluded recently. Mexican industry is also optimistic on exporting greater volumes to the United States as trade sources indicate that the drought and cattle herd reduction experienced in the southern United States is encouraging more purchases of Mexican beef.

Sources have stressed that the Mexican beef industry must develop added-value product exports to strengthen all aspects of the marketing chain. Sources indicate that this will allow producers to obtain greater profits. However, Mexico lacks sufficient grazing land for large herds and for animals closer to desirable market weights. As such, the export of live cattle is a trend that will likely continue for several years.

Policy:

On December 6, 2011, the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) National Service of Health, Food Safety, and Food Quality (SENASICA) Import and Export General Directorate announced that Mexico will only be accepting the latest version of the FSIS Letterhead Certificates that were agreed upon and included in various official communications with Post. If shipments are not accompanied with these new Letterhead Certificates they will likely be held up at the border until a new replacement certificate (also known as “in lieu of” certificate) can be issued. The Letterhead Certificates have been posted on USDA’s FSIS [Export Library](#) and the Spanish requirements are posted on SENASICA’s website under the [Modulo de Consulta de Requisitos Zoosanitarios para la Importacion](#) (MCRZI).

In order to support better herd management, SAGARPA is promoting a voluntary program called “Reliable Provider Free of Clenbuterol”. Currently, SAGARPA offers producers delivering cattle to *Tipo Inspeccion Federal* (TIF) establishments a subsidy of 220 pesos (approximately U.S. \$16.40) per

animal under this program. SAGARPA aims to discourage producers from using β -agonists during the last stages of cattle production as the substances are not approved for livestock use in Mexico. The use is considered illegal and can be detected in random sampling programs conducted at TIF facilities as well as municipal slaughter houses. Industry and government sources have declared that 97 percent of the domestic meat supply is safe for human consumption.

Recently, Mexico removed beef feet and sweet breads from the list of banned U.S. products. However, a number of other products remain, including; ground beef, small intestines, weasand meat, and head meat. (NOTE: the additional market access for beef feet and sweet breads will not affect the Post or USDA Production, Supply, and Demand forecasts as these tables refer only to muscle meats and NOT variety meats nor offals).

Currently, many producers sell their calves at an early growth stage. Private sources are jointly working with government authorities to implement a new program called “Development of Suppliers”. The program offers training, financial support, and technical assistance to calf producers. Through this program producers would be eligible to obtain financing that should allow them to feed and sell animals at a higher weight and when they are ready for slaughter. Presumably, this should not affect forecasts as entities in the marketing channel were feeding out the animals. However, the policy change should allow greater producer returns and may provide added strength to rural agricultural production.

Commodities:

Animal Numbers, Swine

Meat, Swine

Production:

The Post 2012 Mexican pork production forecast is 1.215 million metric tons (MMT), carcass weight equivalent (CWE), higher than the USDA forecast. This increase is driven by specific requirements from Mexican export markets, the incorporation of new breeding lines that are better able to adapt to the Mexican production system, and better farm management techniques. The Post 2011 pork production forecast has been increased slightly, as well, from the USDA estimate for the above mentioned reasons.

Traditionally, Mexican producers supply live swine for slaughter at a weight of 105 kilograms for the purpose of ensuring leaner meat carcasses. Beginning in 2011 and in 2012, however, some slaughter operations producing swine for export are holding hogs until they reach 120 kilograms. Additionally, better genetics in the breeding swine population are producing more live animals per litter and have resulted in hog herds that are able to gain the desired market weight in less than 180 days, which is the Mexican industry average. The United States’ recognition of Mexican States as free of classical swine fever (CSF) has been one of the key factors to opening foreign markets for Mexican pork. The new and additional market access that Mexico has gained and the demand for high quality pork products in Asian markets are other important factors that are encouraging higher production.

Nevertheless, the exceptional drought, mentioned previously, is affecting pork production profitability, as higher feed grain prices have stressed production. As in other producing countries, animal feed for pork is based on yellow corn and sorghum. Some northern Mexico producers, however, are feeding their hogs with white corn or wheat (if available due to temporal surpluses during Mexico's growing seasons). In Mexico, feed represents approximately 64 percent of the production cost.

Consumption:

The Post 2012 pork consumption forecast is higher than the USDA forecast as purchasing power gains and demand, specifically, for hams and picnic remains strong. These are generally inexpensive cuts that can be consumed as deli meat by middle and upper income consumers. Moreover middle income consumers (a smaller fraction of the population) are shifting consumption habits from poultry and beef back to pork. The Post 2011 consumption estimate has been revised lower than the USDA estimate as higher pork prices encouraged consumers to consume less expensive animal proteins.

Trade:

Mexico's imports consist of hams and mechanically deboned meat (MDM) for the preparation of sausages, deli hams, and other cold cuts. The Post 2012 pork import forecast remains the same as the USDA forecast (650,000 MT CWE). The Post 2011 revised pork import estimate of 594,000 MT (CWE) is lower than the USDA estimate as higher international pork prices and competing international demand increased prices so that lower-income consumers needed to switch to lesser expensive animal proteins.

Although Mexico is a net meat importer, it is expected that during 2012, exports of pork meat to Japan will continue. Industry sources report that they are able to receive greater profits by exporting higher-quality cuts to overseas Asian markets. The United States represents a potential niche market for specialty pork cuts. This market could be attractive to Mexican pork producers, but producers would need to find a market for other parts of the carcass (e.g., head, legs, and shoulders). Mexico's distribution channels for these products exist, but the material would be competing with current supplies and potentially force down margins.

Policy:

The GOM continues implementing a number of programs to support agricultural production. Among these, the *Agricultura Por Contrato* (Forward Contract Program) is of significant and special importance for the swine industry. Both crop producers and animal feeders are encouraged to contract for grain delivery through this Forward Contract Program. The GOM, specifically, SAGARPA, provides a subsidy towards the cost of hedging. The hedge along with the actual contract provides assurance for a set grain price for the animal producers. While the program is open to all producers, the larger and more sophisticated producers have shown a greater interest in participating in the program.

On October 21, 2011, the Secretariat of Economy (SE) published in the *Diario Oficial* (Federal Register) an [announcement](#) revoking the retaliatory import tariffs on 99 U.S. agricultural and industrial products. This elimination of tariffs was the second step in the cancellation of tariffs after signing a

[bilateral memorandum of understanding](#) on July 6, 2011. The tariff on 2 harmonized tariff system (HTS) line items related to pork meat (HTS 0203.12.01 and 0203.22.01) was reduced to 0 percent with the October 21 announcement. (See GAIN Report MX1076 *Mexico Eliminates Trucking Retaliation Tariffs*).

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Mexico	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	22,192	22,192	21,456	21,456	20,075	20,090
Dairy Cows Beg. Stocks	3,175	3,175	3,185	3,185	3,200	3,200
Beef Cows Beg. Stocks	6,960	6,960	7,000	7,000	6,900	6,900
Production (Calf Crop)	7,000	7,000	6,900	6,900	6,800	6,800
Total Imports	25	25	18	16	20	20
Total Supply	29,217	29,217	28,374	28,372	26,895	26,895
Total Exports	1,261	1,261	1,450	1,435	1,425	1,435
Cow Slaughter	1,535	1,535	1,600	1,600	1,575	1,575
Calf Slaughter	300	300	340	300	300	300
Other Slaughter	4,215	4,215	4,435	4,447	4,525	4,500
Total Slaughter	6,050	6,050	6,375	6,347	6,400	6,375
Loss	450	450	474	500	450	475
Ending Inventories	21,456	21,456	20,075	20,090	18,620	18,625
Total Distribution	29,217	29,217	28,374	28,372	26,895	26,910

1000 HEAD, PERCENT

Not Official USDA Data

Meat, Beef and Veal Mexico	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	6,050	6,050	6,375	6,347	6,400	6,375
Beginning Stocks	0	0	0	0	0	0
Production	1,751	1,751	1,830	1,825	1,845	1,830
Intra-EU Imports	0	0	0	0	0	0
Other Imports	296	296	280	265	270	300
Total Imports	296	296	280	265	270	300
Total Supply	2,047	2,047	2,110	2,090	2,115	2,130
Intra EU Exports	0	0	0	0	0	0
Other Exports	103	103	220	148	235	250
Total Exports	103	103	220	148	235	250
Human Dom. Consumption	1,934	1,934	1,880	1,932	1,870	1,870
Other Use, Losses	10	10	10	10	10	10
Total Dom. Consumption	1,944	1,944	1,890	1,942	1,880	1,880
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,047	2,047	2,110	2,090	2,115	2,130

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG

Not Official USDA Data

Animal Numbers, Swine Mexico	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	8,979	8,979	9,007	9,007	9,240	9,276
Sow Beginning Stocks	1,068	1,068	1,065	1,065	1,065	1,070
Production (Pig Crop)	16,200	16,200	16,300	16,350	16,300	16,500

Total Imports	9	9	13	12	15	15
Total Supply	25,188	25,188	25,320	25,369	25,555	25,791
Total Exports	0	0	0	0	0	0
Sow Slaughter	10	10	13	13	12	12
Other Slaughter	15,390	15,390	15,287	15,300	15,488	15,500
Total Slaughter	15,400	15,400	15,300	15,313	15,500	15,512
Loss	781	781	780	780	780	780
Ending Inventories	9,007	9,007	9,240	9,276	9,275	9,499
Total Distribution	25,188	25,188	25,320	25,369	25,555	25,791
1000 HEAD, PERCENT						

Not Official USDA Data

Meat, Swine Mexico	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	15,400	15,400	15,300	15,313	15,500	15,512
Beginning Stocks	0	0	0	0	0	0
Production	1,165	1,165	1,170	1,182	1,180	1,215
Intra-EU Imports	0	0	0	0	0	0
Other Imports	687	687	630	594	650	650
Total Imports	687	687	630	594	650	650
Total Supply	1,852	1,852	1,800	1,776	1,830	1,865
Intra EU Exports	0	0	0	0	0	0
Other Exports	78	78	75	86	75	90
Total Exports	78	78	75	86	75	90
Human Dom. Consumption	1,774	1,774	1,725	1,690	1,755	1,775
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,774	1,774	1,725	1,690	1,755	1,775
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,852	1,852	1,800	1,776	1,830	1,865
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						

Not Official USDA Data

Author Defined:

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For More Information

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX2012	Mexico 2012 Poultry Semi-Annual	3/20/2012
MX2004	Mexico Publishes Preliminary Determination on U.S. CLQs	1/20/2012
MX2005	January 2012 Grain and Feed Update: Intense Drought Lowers Corn, Sorghum, and Wheat Forecasts	1/27/2012
MX1092	New Meat and Poultry Letterhead Certificates Required	12/6/2011
MX1076	Mexico Eliminates Retaliatory Tariffs	10/21/2011

MX1009	Mexico Initiates an Antidumping Investigation on U.S. CLQs	2/8/2011
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Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.